



Sacramento Valley

Office Report | Q2-2006

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NAI BT Sacramento
840 Jefferson Blvd
West Sacramento, CA 95691
Tel 916-375-1500
Fax 916-376-8840

www.naibtcommercial.com

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Summary

The Sacramento Valley office market encompasses four counties and is bounded by the cities of Auburn (North), Elk Grove (South), El Dorado Hills (East), and Woodland (West). The total building base for this market at the end of the second quarter of 2006 was 62.1 million square feet, comprised of 18.4 million square feet of Class A inventory, 23.5 million square feet of Class B, and 19.6 million square feet of Class C. Vacancy ended the second quarter at a rate of 13.8%, a slight decrease from the 13.9% vacancy reported in the first quarter. Total availabilities ended the quarter at 8.5 million square feet, up 23,655 square feet from Q1-06. Direct availability represented 93% of the available leasing market with nearly 8 million square feet. Sublease space experienced a reduction from the previous quarter, declining 64,843 square feet to end the quarter at 585,025 square feet. The average asking rate for the second quarter 2006 increased \$0.02 to \$1.89 per square foot full service.

Vacancy rates varied among the submarkets in the Sacramento Valley office market. The submarkets of West Sacramento, Elk Grove, Rancho Cordova and Gold River reported the highest vacancy rates at 24.6%, 18.2%, 17.5%, and 19.4% respectively. Elsewhere, vacancy rates reported single-digit values for the submarkets of Fair Oaks – Carmichael (2.1%), Auburn (4.4%), Citrus Heights – Orangevale (6.1%), and Davis (3.2%).

The overall average asking rate in the Valley's office market was \$1.89 per square foot full service, an increase of \$0.02 from Q1-2006. There was significant disparity among the asking rates for the different classes of office space. Second quarter asking rates for Class A office space rose by \$0.06 to \$2.10 per square foot. Class B asking rates remained unchanged at \$1.87. Class C space saw a \$0.03 increase to \$1.66 per square foot.

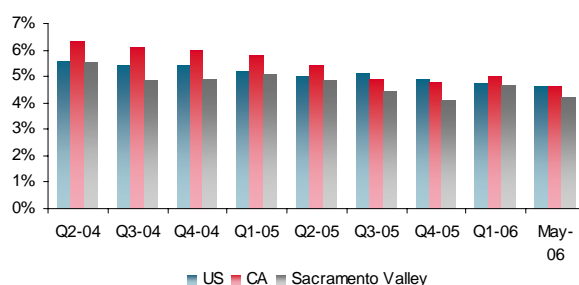
The submarkets that reported the highest asking rates in the second quarter include El Dorado Hills, Roseville – Rocklin and Folsom at \$2.21, \$2.12, and \$2.04, respectively. Elk Grove's double digit office space growth coincided with a recent report by the U.S. Census Bureau that named the city as the fastest-growing large city in America. As such, Elk Grove reported a \$2.56 per square foot asking rate, the highest in the Sacramento Valley market. On the other end of the spectrum, the submarkets that reported the most affordable rates were Auburn (\$1.69), Woodland (\$1.60), and Citrus Heights – Orangevale (\$1.52).

One of the major variables affecting asking rents has to do with the age of the project and the extent of tenant improvements that the landlord needs to provide—newer properties and those needing significant TIs generally do not pencil without rents in excess of \$2.00. Contractors and developers are reporting 25-35% increases in construction costs.

Total second quarter new construction delivered 443,639 square feet, down from 1.2 million square feet during the previous quarter. The largest second quarter delivery was the 83,000 square foot, Class A Liberty Center II, a two story building in Elk Grove. Total net absorption for the Sacramento market was 393,039 square feet, down from 595,799 square feet in 1Q-2006.

Unemployment Rates

The unemployment rate in the Sacramento Valley experienced a decrease from 4.68% in Q1-06 to 4.19% in May 2006. California also posted a sizable decrease from 5.0% to 4.6%, while the US average saw a more moderate reduction from 4.7% to 4.6% for the same reporting period. All three unemployment rates are down from the same reporting period a year ago.





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Office Report | Q2-2006

Summary (continued)

The primary business districts that exist within the Sacramento Valley office market include Downtown Sacramento, Midtown Sacramento, and the Highway 50 Corridor. Downtown Sacramento vacancy increased by 240 basis points to end the quarter at 16.2%, while overall asking rates decreased by \$0.08 to \$1.99 per square foot full service.. Demand for Downtown Class A space waned, with a \$0.05 decrease from the previous quarter to \$2.21. Midtown Sacramento is an economical alternative to its adjacent neighbor Downtown Sacramento. The product mix for this business district is predominantly low-rise suburban office, usually older, and of Class B & C nature. Vacancy remains tight in this district, reporting just 7.2% vacancy with an average asking rate of \$1.75 per square foot full service at the end of the second quarter of 2006.

The Highway 50 Corridor district encompasses Rancho Cordova, Gold River and a portion of Sacramento. This district is known as the “bargain district” with an average asking rate of \$1.72 per square foot full service. Vacancy has recovered by 270 basis points to 15.6% since the prior quarter.

For the most notable lease and sale transactions completed in Sacramento Valley during the second quarter, please see below.

Notable Lease Transactions in Q2-2006

	<u>Address</u>	<u>City</u>	<u>Tenant</u>	<u>Rentable SF</u>
1	710 Riverpoint Ctr	West Sacramento	Citibank	82,307
2	770 L St	Sacramento	Pacific Business Centers	15,695
3	10640 Mather Blvd	Mather	Ryan & Bardis	15,000
4	1 Capitol Mall	Sacramento	Sacramento Metro Chamber	10,883

Notable Sale Transactions in Q2-2006

	<u>Address</u>	<u>City</u>	<u>Buyer</u>	<u>Total SF</u>
1	Portfolio	Rancho Cordova & Roseville	RREEF	581,248
2	1727-1801 30 th St	Sacramento	AREF Sacramento, LP	376,234
3	428 J St	Sacramento	428 Associates, LP	95,000
4	10961 & 10971 Sun Center Dr	Rancho Cordova	Hines Sun Center Drive Associates LP	90,000
5	2890 Gateway Oaks Dr Bldg E	Sacramento	A&B Gateway LLC	59,503
6	4125 Northgate Blvd	Sacramento	DWM Northgate Office Park, LLC	38,220
7	7445 Greenback Ln	Citrus Heights	7445 Building, LLC	25,000
8	1796 Tribute Rd	Sacramento	Bona Fide, LLC	14,238
9	7220 Fair Oaks Blvd	Carmichael	Melrose Westwood G.P.	10,810

Sacramento Valley

Office Report | Q2-2006



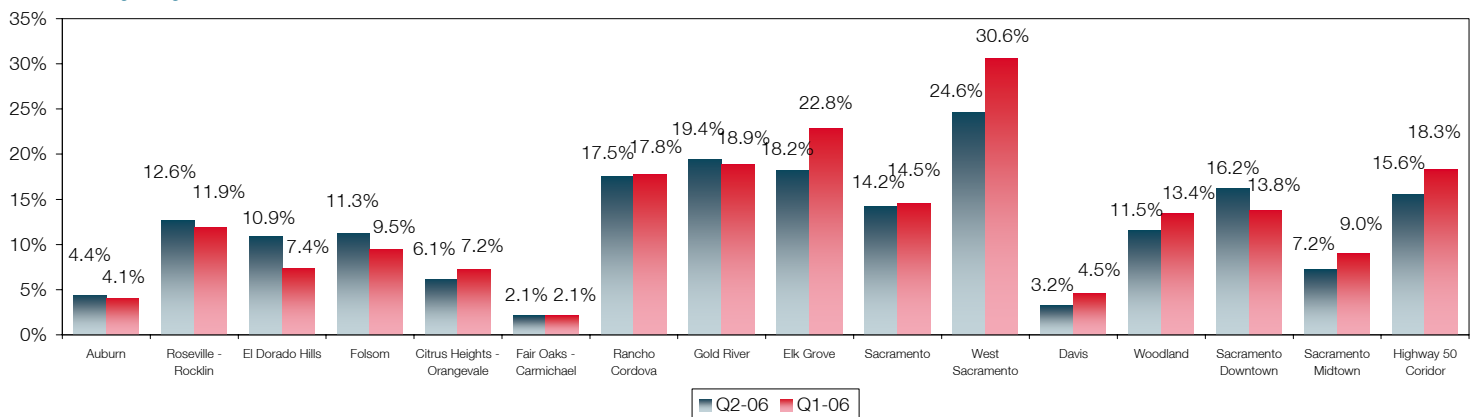
Market Summary

Submarket	Building Sq.Ft.	Available Space			Vacancy Rate		Avg. Asking Rate (FS)	Asking Rate Range (FS)
		Direct	Sublease	Total	Q2-06	Q1-06		
Auburn	575,550	25,232	0	25,232	4.4%	4.1%	\$1.69	\$0.85-\$2.40
Roseville - Rocklin	7,695,340	870,927	100,112	971,039	12.6%	11.9%	\$2.12	\$1.35-\$3.10
El Dorado Hills	1,151,298	106,284	18,651	124,935	10.9%	7.4%	\$2.21	\$1.75-\$3.00
Folsom	3,599,562	329,978	75,474	405,452	11.3%	9.5%	\$2.04	\$1.65-\$2.80
Citrus Heights - Orangevale	981,819	56,260	4,033	60,293	6.1%	7.2%	\$1.52	\$1.35-\$2.55
Fair Oaks - Carmichael	1,078,838	22,616	0	22,616	2.1%	2.1%	\$1.76	\$1.45-\$2.25
Rancho Cordova	6,111,946	1,038,391	30,689	1,069,080	17.5%	17.8%	\$1.75	\$1.20-\$2.50
Gold River	974,487	179,559	9,499	189,058	19.4%	18.9%	\$1.83	\$1.45-\$2.35
Elk Grove	952,022	170,903	2,377	173,280	18.2%	22.8%	\$2.56	\$2.00-\$3.25
Sacramento	39,044,978	5,190,701	344,190	5,534,891	14.2%	14.5%	\$1.85	\$1.00-\$3.40
West Sacramento	1,381,603	340,268	-	340,268	24.6%	30.6%	\$1.73	\$1.35-\$2.35
Davis	462,767	15,000	0	15,000	3.2%	4.5%	\$1.90	\$1.90-\$2.80
Woodland	498,505	57,335	-	57,335	11.5%	13.4%	\$1.60	\$1.13-\$2.44
Total Sacramento Valley	62,165,840	7,990,851	585,025	8,575,876	13.8%	13.9%	\$1.89	\$0.85-\$3.40

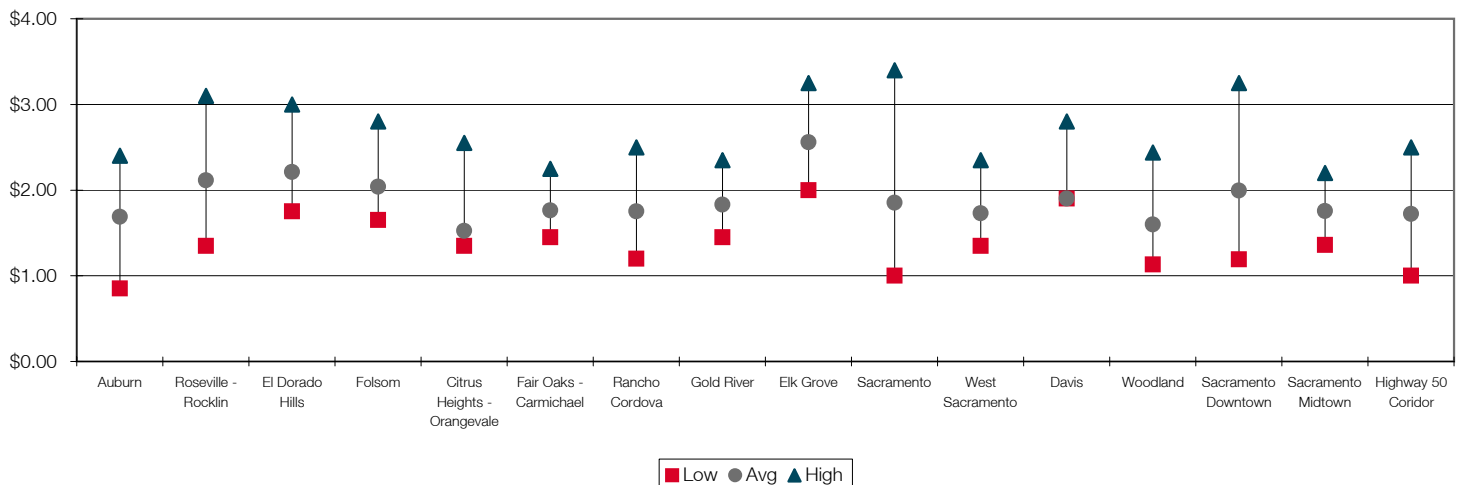
Business Districts

Sacramento Downtown	12,677,731	1,854,442	198,768	2,053,210	16.2%	13.8%	\$1.99	\$1.19-\$3.25
Sacramento Midtown	3,698,572	265,549	-	265,549	7.2%	9.0%	\$1.75	\$1.36-\$2.20
Highway 50 Corridor	12,808,184	1,936,863	59,868	1,996,731	15.6%	18.3%	\$1.72	\$1.00-\$2.50

Vacancy by Area



Market Average Asking Rates Per Square Foot Full Service



Sacramento Valley

Office Report | Q2-2006

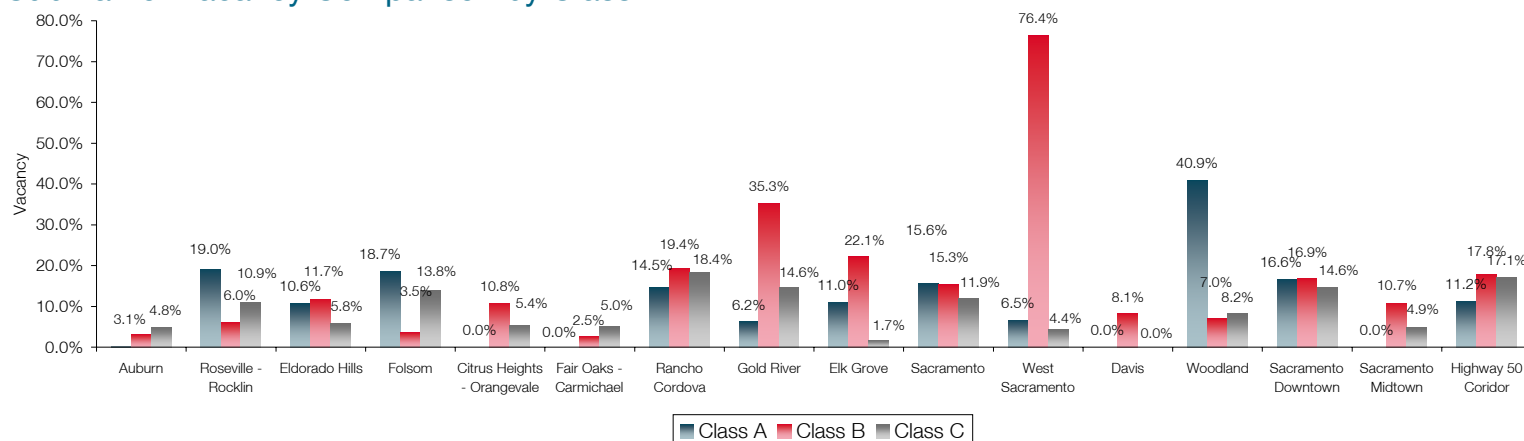


Class A, B & C Statistics

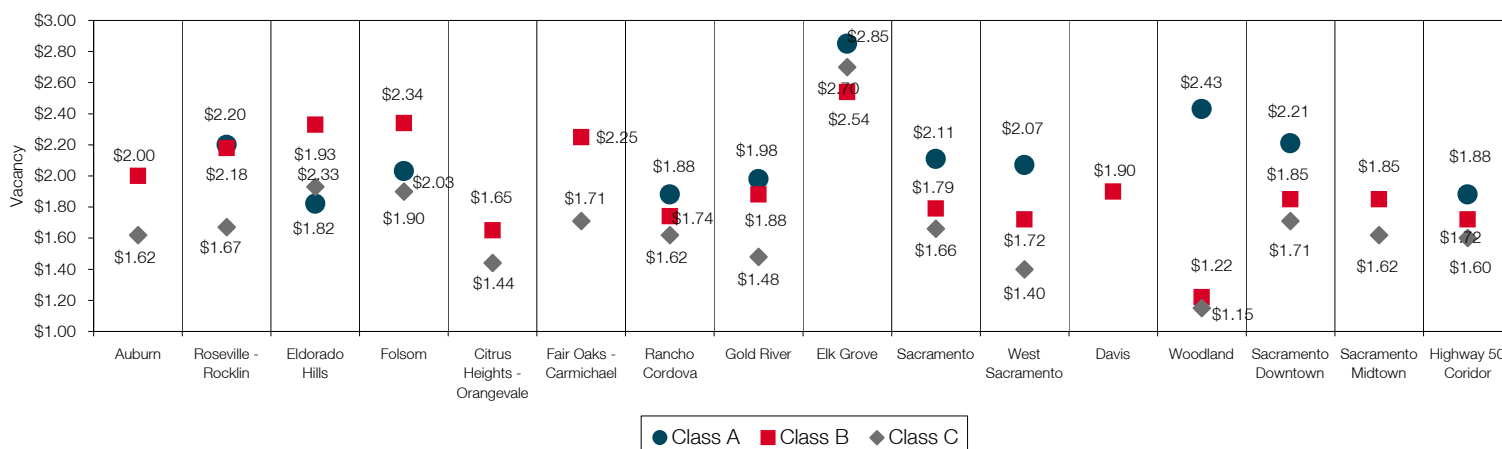
Submarket	CLASS A				CLASS B				CLASS C			
	Base	Available	Vacancy	Rate	Base	Available	Vacancy	Rate	Base	Available	Vacancy	Rate
Auburn	0	0	0.1%	\$0.00	148,490	4,541	3.1%	\$2.00	427,060	20,691	4.8%	\$1.62
Roseville - Rocklin	3,400,226	646,949	19.0%	\$2.20	2,938,789	176,292	6.0%	\$2.18	1,356,325	147,798	10.9%	\$1.67
El Dorado Hills	216,232	22,880	10.6%	\$1.82	806,917	94,565	11.7%	\$2.33	128,149	7,490	5.8%	\$1.93
Folsom	1,329,917	248,174	18.7%	\$2.03	1,516,972	53,515	3.5%	\$2.34	752,673	103,763	13.8%	\$1.90
Citrus Heights - Orangevale	80,000	-	0.0%	\$0.00	221,288	23,816	10.8%	\$1.65	680,531	36,477	5.4%	\$1.44
Fair Oaks - Carmichael	0	0	0.0%	\$0.00	193,685	4,900	2.5%	\$2.25	885,153	44,661	5.0%	\$1.71
Rancho Cordova	2,086,168	303,068	14.5%	\$1.88	2,639,801	511,273	19.4%	\$1.74	1,385,977	254,739	18.4%	\$1.62
Gold River	389,158	24,153	6.2%	\$1.98	383,243	135,383	35.3%	\$1.88	202,086	29,522	14.6%	\$1.48
Elk Grove	83,000	9,125	11.0%	\$2.85	732,725	161,805	22.1%	\$2.54	136,297	2,350	1.7%	\$2.70
Sacramento	11,079,605	1,731,232	15.6%	\$2.11	14,075,205	2,154,077	15.3%	\$1.79	13,890,168	1,649,582	11.9%	\$1.66
West Sacramento	478,791	31,208	6.5%	\$2.07	373,720	285,703	76.4%	\$1.72	529,092	23,357	4.4%	\$1.40
Davis	105,307	0	0.0%	\$0.00	184,240	15,000	8.1%	\$1.90	173,220	0	0.0%	\$0.00
Woodland	47,304	19,358	40.9%	\$2.43	184,240	12,830	7.0%	\$1.22	308,131	25,147	8.2%	\$1.15
Total	18,664,306	2,985,581	16.0%	\$2.10	23,657,115	3,320,167	14.0%	\$1.87	19,844,419	2,297,073	11.6%	\$1.66

Business Districts	CLASS A				CLASS B				CLASS C			
	Base	Available	Vacancy	Rate	Base	Available	Vacancy	Rate	Base	Available	Vacancy	Rate
Sacramento Downtown	5,975,081	991,479	16.6%	\$2.21	3,622,024	612,307	16.9%	\$1.85	3,080,626	449,424	14.6%	\$1.71
Sacramento Midtown	0	0	0.0%	\$0.00	1,450,040	154,743	10.7%	\$1.85	2,248,532	110,806	4.9%	\$1.62
Highway 50 Corridor	4,009,801	450,404	11.2%	\$1.88	5,593,349	997,305	17.8%	\$1.72	3,205,034	549,022	17.1%	\$1.60

Submarket Vacancy Comparison by Class



Submarket Average Asking Rate by Class Full Service



Sacramento Valley

Office Report



Definitions

Class A Product

Steel and concrete construction, built after 1980, quality tenants, excellent amenities & premium rents.

Class B Product

Built after 1960, fair to good finishes & wide range of tenants.

Total Building Base

Includes Class A, Class B, Class C and Suburban Garden Office buildings over 10,000 square feet.

Direct Availabilities

Total square footage being marketed for lease by landlord available within 90 days. This may include availabilities with pending leases.

Sublease Availabilities

Total square footage being marketed for lease by sublessor.

Vacancy

Total available square footage (direct & sublease) divided by Total Building Base.

BTS (Build-to-Suit)

A method of leasing property whereby the landlord builds to suit the tenant (according to tenant's specifications). The cost of construction is figured into the rental amount of the lease, which is usually for a long term.

New Spec (Speculative)

A building constructed for lease or sale but without having a tenant or buyer before construction begins.

Gross Absorption

Total leasing and user sale activity in the marketplace in a given time period.

Net Absorption

Change in occupied building square footage in a given time period.

Avg. Asking Rate

Weighted Average Full Service Rate (by available square footage) of available spaces with NNN and Gross rates converted to Full Service rates.

Avg. Time on Market

Weighted Average Time on market (by available square footage) of available spaces reflected in months.

Availables by Size

Number of current available spaces for lease in the given size.

Historical Continuity

NAI BT maintains a building by building historical record. Comparing previous reports to this report may show different building size numbers and statistics. Changes are caused by reclassification of buildings and revised building sizes. Historical comparisons should be made from this report only as NAI BT adjusts the historical record accordingly.

Source

Data is tracked and tallied from information provided by The Costar Group.